

BUDGET LETTER

SUBJECT: 2007-08 BUDGET POLICY	NUMBER: 06-18
REFERENCES:	DATE ISSUED: August 1, 2006
	SUPERSEDES: BL 05-18

TO: Agency Secretaries
Department Directors
Department Chief Counsels
Department Budget Officers
Department Accounting Officers
Department of Finance Budget Staff

FROM: DEPARTMENT OF FINANCE

Note: Budget Officers are requested to forward a copy of this Budget Letter (BL) to your departments' Chief Counsels.

This Budget Letter (BL) sets forth the Governor's policy direction for his proposed 2007-08 Budget. As a reminder, BL 06-04, issued March 28, 2006, outlines the technical and procedural requirements for preparation of the 2007-08 Governor's Budget.

Progress Towards Structural Balance

In his 2006-07 January 10 Governor's Budget proposal, Governor Schwarzenegger continued to propose measures to narrow the difference between ongoing spending and revenues. In his 2006-07 May Revision, the Governor emphasized the need to continue to exercise fiscal discipline in the face of a persistent structural budget problem. Two key elements in this approach are to: (1) use one-time revenues for one-time expenditures (in order to avoid increasing the structural deficit in future years) and (2) prepay past years' debt.

With the signing of the 2006 Budget Act, Governor Schwarzenegger has approved a state spending plan that improves the state's fiscal health by setting aside an unprecedented amount to pay down debt and to establish a healthy budget reserve. This Budget also fully funds education along with providing critical funding for law enforcement, disaster preparation, and services for abused and neglected children. The Governor's strategy is working and the state's 2006-07 net operating deficit has been reduced from \$16.5 billion to slightly over \$3 billion. All three credit rating agencies have recently rewarded the state by upgrading its bond credit rating.

Though significant progress in eliminating the structural deficit has occurred, the state must continue to exercise fiscal discipline to eliminate the projected deficit in 2007-08 and the future. Preliminary projections indicate that the state will face a General Fund structural budget deficit of several billion dollars in 2007-08.

Therefore, and given the Governor's pledge not to raise taxes nor harm the business environment, all General Fund proposals intended to expand services to a greater share of the population, increase the level of service to existing populations or that would initiate new services must be accompanied by an offsetting service reduction proposal or some other means to finance the proposal, unless Department of Finance (Finance) has previously agreed to review such proposals. Non-General Fund proposals must be accompanied by similar reductions or financing plans that either live within current revenue streams or revenue enhancements that are supported by the affected entity or industry.

Proposed Statutory Changes

Pursuant to Government Code Section 13308, Finance must provide to the Legislature on or before February 1 of each year, all proposed statutory changes, as prepared by the Legislative Counsel, necessary to implement the Governor's Budget. Therefore, all Budget Change Proposals that require statutory changes also must include a copy of the proposed legislation. Finance will submit any approved language to the Legislative Counsel.

Comprehensive Budget Development Process

The Government Code and Budget Act require the Governor's Budget development process to be as comprehensive as possible, and any subsequent adjustments may only be made to meet critical and unanticipated needs. Further, the January Budget is to include all policy proposals being made for the ensuing fiscal year. Spring Finance Letters, due to the Legislature no later than April 1, should be used only for: (a) updating those proposals made in January, or (b) submitting any new critical proposals that cannot be delayed until the upcoming fall budget process without serious consequences. The May Revision changes to the Governor's Budget are due to the Legislature no later than May 14 and will encompass only traditional enrollment, caseload, and population adjustments and any necessary budget balancing proposals.

Budget Change Proposal Form

The Budget Change Proposal (BCP) form has been revised to include additional information. A section for Outcomes and Accountability has been added (under the Analysis of Problem) for departments to describe what programmatic controls, policies, and procedures will be utilized to ensure accountability for the requested funds and/or positions.

In addition, the form now reflects the date the BCP was submitted to the Legislature, and includes a space for a Finance supervisor's signature to attest to that submission. The purpose of this information is to improve the tracking of the "final" version of a department's BCP. *This "final" version of a BCP is the only version that should be made public* unless disclosure is approved by the Governor's Office or made pursuant to a court order. Information contained in a BCP is an integral part of the Governor's Budget deliberation process. As such, a BCP is to be treated as a privileged and confidential working paper subject to the Governor's deliberative process privilege until the BCP reflects the Governor's final decision to include the BCP as part of his budget proposal to the Legislature. Disapproved BCPs and unapproved versions of BCPs (i.e., those not released to the Legislature) are to be treated as working papers subject to the Governor's privilege, and are not to be released except when that privilege is waived by the Governor's Office or pursuant to a court order. Questions about requests for confidential budget documents under the Public Records Act or litigation discovery requests seeking confidential budget documents should be directed to department legal staff, and, if necessary, by department legal staff to Finance legal staff.

Departments should use the latest form for submittal of BCPs starting with the 2007-08 Governor's Budget. The BCP form can be found on the Finance public website:
http://www.dof.ca.gov/html/budletr/forms/fin_form.htm.

If you have any questions, please contact your Finance budget analyst.

/s/ Michael C. Genest

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Director